

*Arizona Health Care Cost Containment System*



**FINANCIAL REPORTING GUIDE FOR  
ALTCS PROGRAM CONTRACTORS**

**Arizona Health Care Cost Containment System**

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## DEFINITIONS

The definitions in this Financial Reporting Guide are in addition to the contractual definitions found in Section C in the ALTCS EPD Contract.

**Affiliate:** A party that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an enterprise. Control refers to the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract or otherwise.

**Behavioral Health Services:** Services provided to ALTCS members who have had or are having psychological problems.

**Contractor:** An organization or entity agreeing through a direct contracting relationship with the AHCCCS to provide those goods and services specified by contract.

**Day:** Calendar day.

**Financial Package:** The package of financial documents to be submitted to AHCCCS/DHCM (Division of Health Care Management).

**Inpatient:** A patient who is provided with room, board, and general nursing services in a hospital setting and is expected to remain at least overnight and occupy a bed.

**Institutional:** Inpatient room, board and nursing services provided to members who require services on a continuous basis but who do not require hospital care or direct daily care from a physician.

**Materiality:** Variance of plus or minus 5% or more.

**Outpatient:** A patient who is not confined overnight in a health care institution.

**Physician Services:** Services provided within the scope of practice of medicine or osteopathy as defined by state law or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy, and excludes those services routinely performed and not directly related to the medical care of the individual patient.

**Radiology Services:** Services that incorporate the use of ionizing radiation and other forms of energy for the prevention, treatment and diagnosis of disease.

**SSI:** Supplement Security Income under Title XVI of the SSA as amended.

**Sub-Capitation:** A fixed payment (per member per month-pmpm) for the provision of contracted services to members paid by a Contractor to a provider of health care services with whom the Contractor has contracts.

**Third Party:** An individual, entity or program that is or may be liable to pay all or part of the medical cost of injury, disease or disability of an AHCCCS applicant or member.

**Withhold:** The amount withheld from payments to providers. This amount is typically accounted for as any other medical expense and accrual. At the end of a designated period, the Contractor withholding the funds determines whether or not they will be distributed in part or full to the related providers. This practice is used to ensure Contractor solvency and profitability.

## **ACRONYMS**

<u>ACRONYM</u>	<u>DEFINITION</u>
AHCCCS	Arizona Health Care Cost Containment System
AICPA	American Institute of Certified Public Accountants
ALTCS	Arizona Long Term Care Services
CPT	Current Procedure Terminology
DHCM	Division of Health Care Management
FAB	Finance ALTCS and Behavioral Health Unit
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
HCPCS	HCFA Common Procedure Coding System
IBNR	Incurred But Not Reported (claim)
RBUC	Reported But Unpaid Claim
SOC	Share of Cost
GSA	Geographic Service Area

## **1.0 GENERAL INFORMATION**

### **1.01 Purpose and Objective of the Financial Reporting Guide**

The purpose of the Financial Reporting Guide (Guide) for the Arizona Long Term Care System (ALTCS) Contract with the Arizona Health Care Cost Containment System (AHCCCS) is to set forth the monthly, quarterly, annual and ad hoc financial related reporting requirements for ALTCS Program Contractors (Contractors). The primary objective of the Guide is to establish consistency and uniformity in financial reporting. This Guide is neither intended to limit the scope of audit procedures to be performed during the Contractor's annual certified audit, nor to replace the independent Certified Public Accountant's judgment as to the work to be performed. It is merely a supplemental guide to the contract.

Financial statements must be prepared and presented on the accrual basis of accounting and in accordance with Generally Accepted Accounting Principles (GAAP) and all other applicable authoritative literature.

If there are any inconsistencies between the Guide and any contract provisions, the contract provisions shall prevail. This Guide is not intended nor should it be construed as an all-inclusive manual. The format and content of the required reports are subject to change. Questions regarding the format of a report are to be directed to the AHCCCS DHCM/FAB Unit Administrator.

Contractors are required to utilize the Financial Statement Reporting Templates provided by the DHCM/FAB Unit unless specifically labeled as optional.

## 2.0 FINANCIAL REPORTING REQUIREMENTS

The following table represents the financial reporting requirements and the applicable due dates.

**Periodic Reporting Requirements Matrix**  
Report Due Dates

<b>Report</b>	<b>Report Number</b>	<b>Monthly Reporting</b> 30 days post month-end	<b>Quarterly Reporting</b> 60 days post quarter-end	<b>Draft Audit</b> 90 days post year-end	<b>Final Audit</b> 120 days post year-end	<b>Other Ad Hoc</b> As requested
Financial Statement Reporting Template	<b>Appendix 6.1.0</b>		<b>X</b>			
Monthly/Quarterly Certification Statement	<b>Certification Statement</b>	<b>X</b>	<b>X</b>			
Statement of Financial Position, Net Assets or Balance Sheet	<b>Report #1</b>	<b>X (optional format)</b>	<b>X</b>	<b>X</b>	<b>X</b>	
Statement of Activities or Income Statement by Contractor	<b>Report #2</b>	<b>X (optional format)</b>	<b>X</b>	<b>X</b>	<b>X</b>	
Statement of Activities or Income Statement by GSA	<b>Report #2A (GSA)</b>		<b>X</b>	<b>X</b>	<b>X</b>	
Statement of Activities or Income Statement by County (Optional)	<b>Report #2B (County Optional)</b>		<b>X</b>	<b>X</b>	<b>X</b>	
Investments & Statement of Financial Position, Net Assets or Balance Sheet "Other Account" Details	<b>Report #3</b>		<b>X</b>	<b>X</b>	<b>X</b>	
Statement of Activities or Income Statement "Other Account" Detail Report	<b>Report #4</b>		<b>X</b>	<b>X</b>	<b>X</b>	
Medical Claims Payable Report -						
RBUCs	<b>Report #5</b>		<b>X</b>	<b>X</b>	<b>X</b>	
Claims Lag Reports Prospective – IBNR	<b>Report #6</b>		<b>X</b>	<b>X</b>	<b>X</b>	
Utilization Report at Contractor level and GSA level (If applicable) County level is optional.	<b>Report #7</b>		<b>X</b>	<b>X</b>	<b>X</b>	
FQHC/RHC Reasonable Cost Reimbursement Member Months	<b>FQHC/RHC</b>		<b>X</b>			
FQHC/RHC Reasonable Cost Reimbursement Expenditures Paid	<b>FQHC/RHC</b>		<b>X</b>			

Parent Company Financial statements (If applicable)			<b>X</b>	<b>X</b>	<b>X</b>	
Independent Auditor's Report				<b>X</b>	<b>X</b>	
Listing of Contractor Officers and Directors				<b>X</b>	<b>X</b>	
Management Letter				<b>X</b>	<b>X</b>	
Annual Reconciliation				<b>X</b>	<b>X</b>	
Statement of Cash Flows- Quarterly is Optional			<b>X (optional)</b>	<b>X</b>	<b>X</b>	
Summary of Contractor's Contract Rates for Services- Due Date: October 15, 2XXX	<b>Appendix 6.6</b>					<b>X</b>
Contractor's Proprietary Format for Monthly Financial reporting (to include at a minimum Statement of Financial Position, Net Assets or Balance Sheet and Statement of Activities or Income Statement)		<b>X</b>				



### **3.00 Instructions for completion of monthly, quarterly and annual reporting forms**

#### **3.01 General Instructions**

All financial statements, quarterly, draft and audited, must be reported using the accrual basis of accounting. Quarterly financial statements are prepared based on the contract fiscal year end of September, 20XX, draft and audited financial statements are prepared based on the Contractor's fiscal year end. The Contractor shall submit the quarterly reports both electronically and in hard copy using the Financial Statement Reporting Templates provided by the FAB unit. The Contractor shall submit the draft and audited financial reports, including supplemental reports, both electronically and in hard copy to the FAB unit. Amounts reported to AHCCCS under this guide are to represent the AHCCCS ALTCS line of business independent of any other line of business in which the Contractor may be engaged. The financial statements must at least separate these lines of business in the form of additional supplemental schedules, if they are not separately presented in the financial statements themselves.

Quarterly financial statements are to be reported by Geographical Service Areas (GSA) and for all GSAs combined. On an annual basis, financial statements are to be reported by county. A Contractor may report quarterly financial statements by county as long as a combined report by GSA is included in the preparation.

Draft annual audited financial statements should be complete with ***all required attachments and schedules*** and be as close to final submission as possible. There should only be non-material changes between the draft submission and the final Audited Financial statements submission. Any and all changes between the quarterly financial statement and the draft and final audit must be reported in ***detail*** in a footnote disclosure or by providing a list of actual journal entries made.

Report line titles and columnar headings are detailed in the report specific paragraphs below. Utilize the predefined categories or classifications before reporting an amount as "Other". For any amounts included in the "Other" categories, provide details and explanations in the footnotes regarding the content of the account(s).

If information is not available, or applicable, write "None", not applicable (N/A), or "-0-" in the space provided.

All amounts are to be reported in whole dollars.

#### **3.02 Certification Statement**

The purpose of the certification statement is to attest that the information submitted in the reports is current, complete and accurate. The statement should include the Contractor name, Contractor identification number, month ended or quarter ended, preparer information, and signatures. (See Appendix 6.2 for an example of the Certification Statement)

#### **3.03 Financial Statement Reporting Template**

The Financial Statement Reporting Template lists the required internal audit criteria that must be passed prior to the submission of the quarterly financial statements. If the internal audit check figures do not match, data should be corrected or an explanation should be provided in writing and submitted with the quarterly financial statement-reporting package. (Appendix 6.1.0)

### **3.04 Monthly Financial Reporting**

The Contractor is required to submit monthly financial statements. The format utilized is the Contractor's proprietary format. At a minimum, the Contractor must submit the Statement of Financial Position, Net Assets or Balance Sheet and the Statement of Activities or Income Statement.

The monthly financial data may be submitted electronically or in hard copy format. The submission of the monthly financial data must be made no more than 30 days after month end. Please refer to the Periodic Reporting Requirements Matrix in the Contract. The request for monthly reporting equates to copying the ALTCS office on the monthly reporting that is generated by the Contractor.

No monthly submission is required during the last month of a calendar quarter end.

### **3.05 Statement of Financial Position - Balance Sheet - Statement of Net Assets (Appendix 6.1.1)**

#### **CURRENT ASSETS**

Current Assets are assets that are converted into cash, used or consumed within one year from the balance sheet date. Restricted assets for the performance bond, contracts, reserves, etc., are not to be included as current assets.

#### **A/C 105 - Cash and Cash Equivalents**

Include: Cash and cash equivalents, available for current use. Cash equivalents are investments maturing 90 days or less from the date of purchase.

Exclude: Restricted cash (and equivalents) and any cash (and equivalents) pledged by the Contractor to satisfy the AHCCCS performance bond requirement.

#### **A/C 110 - Short-term Investments**

Include: Investments that are readily marketable and that are to be redeemed or sold within one year of the balance sheet date. See Investments Report (Report #3 Appendix 6.1.3) for investments that require prior approval from AHCCCS and required detail of this line item.

Exclude: Investments maturing 90 days or less from the date of purchase and restricted securities. Also exclude investments pledged by the Contractor to satisfy the AHCCCS performance bond requirement.

#### **A/C 115 - Capitation Receivable from AHCCCS**

Include: Net amounts receivable from AHCCCS for capitation including PPC, etc. as of the balance sheet date.

#### **A/C 120 - Reinsurance Receivable**

Include: Billed and unbilled reinsurance due from AHCCCS.

#### **A/C 125 - Investment Income Receivable**

Include: Income earned but not yet received from cash equivalents, investments, on-balance sheet performance bonds, and short and long-term investments.

- A/C 130 - Current Due from Affiliates  
Include: The amount of receivables due from affiliates expected to be collected within one year of the balance sheet date. All related party transactions that are not conducted in the normal course of business require written prior approval from AHCCCS. Due from affiliate amounts should be described in the notes to the financial statements.  
  
Exclude: Amounts due to affiliates.
- A/C 135 - Other Current Receivables  
Include: Any amount due to contractor not included in accounts 115, 120, 125 or 130. The details of these amounts are to be included in Report #3 (Appendix 6.1.3).
- A/C 140 - Other Current Assets  
Include: The total current portion of Other Assets, which will include all other current assets (e.g., income taxes receivable) not accounted for elsewhere on the balance sheet. Any receivables from providers should be accounted for in this line item, and should not be netted against the IBNR liability. See Other Assets Report for required detail of this line item. The details of these amounts are to be included in Report #3 (Appendix 6.1.3)

## **OTHER ASSETS**

- A/C 145 - General Performance Bond  
Include: All cash and investments pledged to meet the AHCCCS performance bond requirement.  
  
Exclude: Surety bonds or letters of credit that do not represent actual assets of the Contractor.
- A/C 150 - Restricted Cash and Other Assets  
Include: Cash, securities, receivables, etc., whose use is restricted.  
  
Exclude: Cash and/or investments pledged by the Contractor to satisfy the AHCCCS performance bond requirement.
- A/C 155 - Long-term Investments  
Include: Investments that are to be held longer than one year. See Investments Report (Report #3 Appendix 6.1.3) for investments that require prior approval from AHCCCS and required detail of this line item.  
  
Exclude: Investments pledged by the Contractor to satisfy the AHCCCS performance bond requirement.
- A/C 160 - Non-current Due from Affiliates  
Include: The net amount of receivables due from affiliates not expected to be collected within one year of the balance sheet date. All related party transactions that are not conducted in the normal course of business require written prior approval from AHCCCS. Non-current due from affiliate amounts should be described in the notes to the financial statements.

- Exclude: Amounts due from affiliates resulting from medical claims payable, capitation payable or other medical expense related items and current amounts due from affiliates.
- A/C 165 - Other Non-current Assets
- Include: The total non-current portion of Other Assets, which will include all other non-current assets not accounted for elsewhere on the balance sheet, including intangible assets net of any amortization. The details of these amounts are to be included in Report #3 (Appendix 6.1.3)

## **PROPERTY AND EQUIPMENT**

Property and Equipment consists of tangible assets including land, buildings, leasehold improvements, furniture, equipment, etc.

- A/C 170 - Land
- Include: Real estate owned by the Contractor.
- A/C 175 - Buildings
- Include: Buildings owned by the Contractor, including buildings under a capital lease, and improvements to buildings owned by the Contractor.
- Exclude: Improvements made to leased or rented buildings or offices.
- A/C 180 - Leasehold Improvements
- Include: Capitalizable improvements to facilities not owned by the Contractor.
- A/C 185 - Furniture and Equipment
- Include: Medical equipment, office equipment, data processing hardware and software (where permitted), and furniture owned by the Contractor, as well as similar assets held under capital leases.
- A/C 190 - Other – Property and Equipment
- Include: All other tangible assets not falling under one of the other specific tangible asset categories. The details of these amounts are to be included in Report #3 (Appendix 6.1.3).
- A/C 195 - Accumulated Depreciation
- Include: The total of all depreciation and amortization accounts relating to the various tangible asset accounts.

## **CURRENT LIABILITIES**

Obligations whose liquidation is reasonably expected to occur within one year from the balance sheet date.

- A/C 205 - Accounts Payable
- Include: Amounts due to creditors for the acquisition of goods and services (trade and administrative vendors) on a credit basis.
- Exclude: Amounts due to providers related to the delivery of health care services.
- A/C 210 - Accrued Administrative Expenses
- Include: Accrued expenses and management fees and any other amounts, estimated as of the balance sheet date (i.e., payroll, taxes). Also include accrued interest payable on debts.

- A/C 215 - Capitation Payable  
 Include: Net amounts owed to providers for monthly capitation.  
 Exclude: Capitation amounts payable to AHCCCS as a result of an overpayment. (This amount should be reported in A/C 240 - Other Current Liabilities.)
- A/C 220 - IBNR  
 Include: The total from the detail listed in Claims Lag report. (See Report #6 Appendix 6.1.6)
- A/C 222 RBUCs  
 Include: The total from the detail listed in Medical Claims Payable report which will include the total of reported but unpaid claims (RBUCs). See Report #5 (Appendix 6.1.5).
- A/C 225 - Other Current Payables  
 Include: Any current amount owed by the Contractor not included in the accounts 205, 215, 220, 222, and 230. The details of these amounts are to be included in Report #3 (Appendix 6.1.3).
- A/C 230 - Current Portion of Long-term Debt  
 Include: The total current portion from the detail listed in the Long Term Debt Report (Other than Affiliates) which will include the principal amount on loans, notes, and capital lease obligations due within one year of the balance sheet date. See Report #3 (Appendix 6.1.3).  
 Exclude: Long-term portion of and accrued interest on loans, notes, and capital lease obligations.
- A/C 235 - Current Due to Affiliates  
 Include: The amount due to affiliates expected to be paid within one year of the balance sheet date. All related party transactions that are not conducted in the normal course of business require written prior approval from AHCCCS. Due to affiliate amounts must be described in the notes to the financial statements.  
 Exclude: Amounts due from affiliates.
- A/C 240 - Other Current Liabilities  
 Include: The total current portion from the detail listed in the Other Liabilities Report, which will include those current liabilities not specifically identified elsewhere (i.e. income taxes payable and capitation amounts payable to AHCCCS). The details of these amounts are to be included in Report #3 (Appendix 6.1.3).

## **OTHER LIABILITIES**

Those obligations whose liquidation is not reasonably expected to occur within one year of the date of the balance sheet.

- A/C 245 - Non-current Portion of Long-term Debt  
 Include: The total non-current portion from the detail listed in the Long-term Debt report which will include the long-term portion of principal on loans, notes, and capital

lease obligations. See Long-Term Debt (Other than Affiliates) Report for required detail of this line item.

Exclude: Current portion of long term debt and accrued interest on loans, notes, and the current portion of capital lease obligations.

A/C 250 - Non-current Due to Affiliates

Include: The amount of payables due to affiliates not expected to be paid within one year of the balance sheet date. All related party transactions that are not conducted in the normal course of business require written prior approval from AHCCCS. Due to affiliate amounts should be described in the notes to the financial statements.

Exclude: Amounts due from affiliates.

A/C 255 - Other Non-current Liabilities

Include: The non-current liabilities not specifically identified elsewhere. The details of these amounts are to be included in Report #3 (Appendix 6.1.3).

## **EQUITY**

Includes preferred stock, common stock, treasury stock, additional paid-in capital, contributed capital, restricted net assets, unrestricted net assets, unrealized gains and losses on investments, and retained earnings/fund balance.

A/C 505 - Preferred Stock

Include: Total par value of Stock, or in the case of no-par shares, the stated or liquidation value.

A/C 510 - Common Stock

A/C 515 - Treasury Stock

A/C 520 - Unrestricted Net Assets

A/C 525 - Restricted Net Assets

A/C 527 - Additional Paid-in Capital

Include amounts paid and contributed in excess of the par or stated value of shares issued.

A/C 528 - Contributed Capital

Include: Capital donated to the Contractor. Describe the nature of the donation as well as any restrictions on this capital in the notes to financial statements.

A/C 530 - Retained Earnings/Net Assets (Liabilities)

Beginning retained earnings balance for a new fiscal year should agree to the ending retained earnings balance from the previous fiscal year. All activity in equity must be disclosed in the notes to the financial statements.

### **3.06 Statement of Activities - Income Statement (Appendix 6.1.2, 6.1.2A & 6.1.2B)**

In addition to completing this report at a combined contractor level of information (report #2 & #2A (GSA), and quarterly financial statements are to be reported by GSA and for all GSAs combined. On an annual basis, financial statements are to be reported by county. A Contractor may report quarterly financial statements by county (report #2B) as long as a combined report by GSA is included in the preparation.

## **REVENUES**

- A/C 300 - Capitation  
Include: Revenue recognized on a prepaid basis from AHCCCS for provision of health care services for AHCCCS eligible ALTCS members.  
  
Exclude: All other capitation, such as DES/DD, and PPC.
- A/C 305 - PPC Capitation  
Include: Revenue recognized from AHCCCS for the provision of prior period coverage health care services for AHCCCS eligible ALTCS members.  
  
Exclude: All prospective, DES/DD or AHCCCS acute care.
- A/C 310- Reinsurance  
Include: Reinsurance earned as of the statement date.
- A/C 315- PPC Reconciliation  
Include: Expected/Received PPC reconciliation payments due from or due to AHCCCS as of the statement date.
- A/C 320- Share of Cost Reconciliation (SOC)  
Expected/Received SOC reconciliation payments due from or due to AHCCCS as of the statement date.
- A/C 325- HCBS Placement Reconciliation  
Include: Expected/Received HCBS reconciliation payments due from or due to AHCCCS as of the statement date.
- A/C 330 - HIV/AIDS Supplement (N/A)
- A/C 335 Other AHCCCS Revenue  
Include: Revenue from AHCCCS not identified in other revenue categories. The details of these amounts are to be included in Report #4 (Appendix 6.1.4).
- A/C 350 - Investment Income  
Include: All investment income earned during the period. Interest income and interest expense should not be net together.
- A/C 360- Third Party Liability Recoveries  
Include: Revenue from the settlement of accident claims or other third party sources.
- A/C 370- Patient Contributions  
Include: Revenue received by the Contractor from members contributing toward the cost of their long-term care services. This is also termed Member Share of Cost (MSOC).  
  
Exclude: Patient contribution collected by the nursing facilities or other providers.
- A/C 380- Other Non-AHCCCS Income  
Include: Revenue from sources not identified in other revenue categories. The details of these amounts are to be included in Report #4 (Appendix 6.1.4).

## **EXPENSES**

All expenses must be reported net of Medicare reimbursement. Included in the Guide is the Arizona Local to HIPAA Code Crosswalk to Financial Statements (Appendix 6.5).

### **INSTITUTIONAL CARE EXPENSES**

Include: Only those expenses for Institutional Care Services (Nursing Facilities). Expense must be reported net of patient SOC contributions, if collected by the nursing facilities. Included in these expenses are therapeutic leave and bed hold days. Therapeutic days should not exceed nine (9) days per year, and bed hold days should not exceed twelve (12) days per year.

A/C 400- Bed holds

A/C 402- SNF Level I

A/C 404- SNF Level II

A/C 406- SNF Level III

A/C 408- Institutional Care

Include: Expenses for Nursing facilities, RTC, IMD or ICFMR.

A/C 410- PPC Institutional Expense

Include: Nursing Facility, RTC, IMD or ICFMR expenses, which cover the period prior to the member's enrollment, during which a member is eligible for covered service.

A/C 412 Other Institutional Care Expense

Include: All other expenses not specifically identified in one of the categories defined above. The details of these amounts are to be included in Report #4 (Appendix 6.1.4).

### **HOME AND COMMUNITY BASED SERVICES (HCBS)**

Include: Compensation for services for members that reside in the defined HCBS setting which include adult foster care, DD group home, individual home, assisted living home, assisted living center, BH Level I, BH Level II, and TBI treatment facility.

A/C 414- Home Health Nurse

Include: Expenses incurred for intermittent skilled nursing services in a home and community based setting. Skilled nursing services may include health maintenance, continued treatment, or supervision of a health condition.

A/C 416- Home Health Aide

Include: Expenses incurred for medically supervised and physician ordered intermittent health maintenance, continued treatment or monitoring of a health condition and supporting care with activities of daily living in a home and community based setting.



- A/C 418- Personal Care  
Include: Expenses incurred for assistance in meeting essential personal physical needs.
- A/C 420- Homemaker  
Include: Expenses incurred for household maintenance in a home and community based setting.
- A/C 422- Home Delivered Meals  
Include: All expenses relating to the delivery of meals to members in a home and community based setting.
- A/C 424- Respite Care  
Include: Expenses incurred for short-term or intermittent care and supervision in order to provide an interval of rest or relief to family members.
- A/C 426- Attendant Care  
Include: Expenses incurred for assistance with homemaking, personal care, general supervision and companionship to members in a home and community based setting.
- A/C 428- Assisted Living Home  
Include: Expenses incurred for the alternative residential setting to provide supervision, personal care and/or custodial care services for up to ten (10) adults.
- A/C 429- Assisted Living Center  
Include: Expenses incurred for the approved alternative residential setting composed of individual apartments to provide general supervision, as well as coordinate supportive living services to members on a 24-hour basis.
- A/C 430- Adult Day Health  
Include: Expenses incurred for planned care and supervision, assistance with medication, recreation, socialization, personal care, personal living skills training, congregate meals, health monitoring and related services such as preventive therapeutic, and restorative health care.
- A/C 432- Adult Foster Care  
Include: Expenses incurred for supervision and assistance with activities of daily living and coordination within a family type environment for up to four (4) adult residents.
- A/C 434- Group Respite  
Include: Expenses incurred for short-term or intermittent care and supervision, in a group setting, in order to provide an interval of rest or relief to family members.
- A/C 436- Hospice  
Include: Expenses incurred for palliative and support care for terminally ill members and their family, or caregivers.
- A/C 438- Environmental Modifications  
Include: All expenses incurred for environmental modifications for HCBS members.
- A/C 443- PPC HCBS

Include: Home and Community based service expenses, which cover the period prior to the member's enrollment, during which a member is eligible for covered service.

A/C 444- Other HCBS Expense

Include: All other expenses not specifically identified in one of the categories defined above. The details of these amounts are to be included in Report #4 (Appendix 6.1.4).

**ACUTE CARE EXPENSE**

Include: Compensation for all acute care services provided to ALTCS members.

A/C 448- Inpatient Services (Hospitalization)

Include: All forms of compensation for hospital inpatient.

Exclude: All PPC expenses.

A/C 450- Primary Care Physician Services

Include: All forms of compensation for primary care delivery, including salary, capitation, and fee-for-service.

A/C 452- Referral Physician Services

Include: All forms of compensation paid for referral (specialist) physician services.

A/C 454- Emergency Services

Include: Those expenses relating to emergency room services provided on an outpatient basis, including any facility fee.

A/C 456- Outpatient Facility

Include: Outpatient facility expenses incurred for outpatient services.

Exclude: Physician expense for surgery (this should be included in Chart of Acct.# 452).

A/C 458- Pharmacy

Include: Pharmacy expenses incurred for outpatient services and psychotropic medications and Prescription Benefit Management (PBM) expenses.

A/C 460- Lab/Radiology

Include: Lab and radiology expenses (medical imaging, X-ray) incurred for outpatient services.

A/C 462- Durable Medical Equipment

Include: Medical supplies, medical equipment, prosthetic devices, and oxygen expenses incurred for outpatient services.

A/C 464- Dental

Include: Dental expenses incurred for outpatient services, including outpatient surgery, prescription drugs, lab, and radiology specifically related to a dental diagnosis. Expenses incurred for non-emergent Adult Dental are to be reported on, Appendix 6.1.4A,

- A/C 466- Transportation  
Include: Medically necessary transportation expenses incurred for inpatient and outpatient services.
- A/C 468- Therapies  
Include: Physical, occupational, respiratory, audiology and speech therapy expenses incurred for outpatient services.
- A/C 470- Outpatient Behavioral Health  
Include: All outpatient behavioral health related expenses such as: screening, evaluation, individual therapy and counseling, group and/or family therapy and counseling, partial care, emergency/crisis behavioral health care, behavior management, psychosocial rehabilitation.
- Exclude: Inpatient behavioral health expenses, lab, radiology and psychotropic medications and monitoring.
- A/C 471- PPC Acute Care Expenses  
Include: Acute care expenses, which cover the period prior to the member's enrollment, during which a member is eligible for covered service.
- A/C 472- Other Acute Care Expense  
Include: Those outpatient expenses not specifically identified in one of the categories defined above. The details of these amounts are to be included in Report #4 (Appendix 6.1.4).

### **OTHER MEDICAL EXPENSE**

Include all other outpatient expenses not specifically identified in one of the categories defined above.

- A/C 474- Ventilator Dependent  
Include: All institutional, HCBS, acute care, and behavioral health expenses incurred for ventilator dependent members.
- A/C 477- PPC-Other  
Include: Those prior period expenses not specifically identified in one of the categories defined above, which cover the period prior to the member's enrollment, during which a member is eligible for covered service.
- A/C 479- Other Medical Expenses  
Include: All other medical expenses that have not specifically been identified in one other the categories defined above. The details of these amounts are to be included in Report #4 (Appendix 6.1.4).

### **CASE MANAGEMENT EXPENSE**

- A/C 480 - Case Management  
Include: Case management expenses, including salaries, benefits, travel and training expenses for the case manager(s), and case management supervisors.

## **ADMINISTRATIVE EXPENSE**

Those costs associated with the overall management and operation of the Contractor.

- A/C 484 - Compensation
  - Include: All forms of compensation, including employee benefits and taxes, to administrative personnel. This includes medical director compensation, whether on salary or contract.
  - Exclude: Compensation classified as case management.
- A/C 488 - Data Processing
  - Include: Costs for outside data processing services during the period as well as internal data processing expenses, other than compensation.
  - Exclude: Compensation for any internal data processing personnel as this is reported in Chart of Acct#484.
- A/C 490 - Management Fees
  - Include: Management fees paid or payable by the Contractor for the current period to a parent or an outside management company. Management fees may not be increased without prior approval (in writing) from AHCCCS.
- A/C 492 - Interest Expense
  - Include: Interest expense incurred on outstanding debt during the period. Interest income and interest expense should not be net together.
- A/C 493 - Occupancy
  - Include: Occupancy expenses incurred, such as rent and utilities, on facilities that are not used to deliver health care services to members.
- A/C 494- Marketing
  - Include: Those activities whose intent is to increase membership. This requirement also applies to any marketing costs included in an allocation from a parent or other related corporation. All marketing costs allocated and otherwise will be excluded in the determination of capitation rate ranges.
- A/C 495 - Depreciation
  - Include: Depreciation on those assets that are not used to deliver health care services to members.
- A/C 496 - Other Administrative Expenses
  - Include: Administrative expenses not specifically identified in the categories above. The details of these amounts are to be included in Report #4 (Appendix 6.1.4).
- A/C 497- Non-operating Income (Loss)
  - Include: Gains and losses on sale of investments and fixed assets during the period and any other non-operating income or loss.
- A/C 498- Provision for Premium Taxes

Include: Premium taxes for the period.

A/C 499- Provision for Income Taxes  
Include: Income taxes for the period.

### **3.07 Statement of Cash Flows (Quarterly Submission is Optional)**

The Statement of Cash Flows reports the entity's cash flows during the reporting period. The Statement of Cash Flows is designed to fulfill the following:

- ♦ Predict future cash flows
- ♦ Evaluate management decisions
- ♦ Show the relationship of net income to changes in the firm's cash.

The Statement of Cash Flows evaluates the entity in terms of its' operating, investing, and financing activities. The indirect method is a short-cut method for accrual systems. (See Appendix 6.4)

### **3.08 Footnote Disclosure Requirements**

Footnotes are to be submitted with audited and unaudited financial statements. Footnotes submitted with quarterly financial statements do not need to be prepared by an independent Certified Public Accountant. Footnotes prepared by an independent Certified Public Accountant should follow GAAP and other authoritative pronouncements in preparation of footnotes to the financial statements.

Footnote disclosures are required in order to supplement AHCCCS' understanding of the financial statements and supplemental schedules. The following list represents minimum expected disclosures and is not intended to be all-inclusive. Disclosures required by GAAP should also be included. If the disclosure does not apply, indicate so by writing "None" next to the numbered footnote.

#### **1) Organizational Structure:**

Discuss the organization structure, location of its headquarters, and a brief summary of the operations of the Contractor.

#### **2) Summary of Significant Accounting Policies:**

Discuss accounting policies relating to significant balance sheet line items such as, but not limited to, cash and cash equivalents, investments and medical claims payable. Specifically, the medical claims payable policy should discuss the methodology used in calculating IBNR balances.

Discuss revenue and expense recognition policies for the following:

Capitation revenue  
Supplemental payment revenue  
PPC Settlement revenue  
Reinsurance revenue  
Other revenue  
Medical expenses  
Administrative expenses

#### **3) Other Amounts:**

Describe material amounts included in the "other" and "miscellaneous" categories in the Statement of Financial Position, Statement of Net Assets or Balance Sheet and Statement of

Activities or Income Statement. For this purpose, material is defined as an amount greater than 5% of the total for each section. For example, if Other Income is reported and it is less than 5% of Total Revenues, no disclosure is necessary. However, if Other Income was 8% of Total Revenues, disclosure is necessary.

4) Pledges/Assignments and Guarantees:

Describe any pledges, assignments, or collateralized assets and any guaranteed liabilities not disclosed on the balance sheet.

5) Performance Bond:

Disclose the method by which the Contractor satisfies the AHCCCS performance bond requirement for the quarter. This disclosure is required whether or not the amounts are included in the financial statements. Also indicate under or over funding and the associated reasons.

6) Material Adjustments:

Disclose and describe any material adjustments made during the current reporting period, including those adjustments that may relate to a prior period, specifically IBNR adjustments, that affect the financial statements.

7) Claims Payable Analysis:

Explain large fluctuations and/or revisions in estimates and the factors that contributed to the change in IBNR and RBUC balances from the prior quarter. Specifically, address changes in IBNRs and/or RBUCs of more than 5% (on an IBNR or RBUC per member basis). Explanations should detail the amount of the adjustments by quarter GSA and by county (annually). Any major variances and/or adjustments made on supplemental report # 5 (Appendix 6.1.5) or #6 (Appendix 6.1.6) should also be footnoted under this item.

8) Contingent Liabilities:

Provide details of any malpractice or other claims asserted against the Contractor, as well as the status of the case, potential financial exposure and expected resolution.

9) Investments:

Long-term investments that may be liquidated without significant penalty within 24 hours, which the Contractor would like treated as current assets for calculation of the current ratio, must be disclosed in the footnotes. In order to utilize this option, the Contractor must request approval in writing. Please note this request must be made on an annual basis. The request must be received by AHCCCS 30 days prior to the beginning of the contract year (September 1st). Descriptions and amounts should be disclosed. (Note that significant penalty in this instance is any penalty greater than 20% of the total long-term investment.) Also disclose the amount of Unrealized Gains or Losses reported on the financial statements associated with these investments.

10) Due from/to Affiliates (Current and Non-current):

Describe, in detail, the composition of the due to/from affiliates including the name of the affiliate, a description of the affiliation, amount due to/from the affiliate and a description of any significant changes to the line item.

11) Equity Activity:

Disclose all activity in equity, other than net income or net loss.

12) Non-Compliance with Financial Viability Standards and Performance Guidelines:

Disclose any non-compliance with Financial Viability Standards and Performance Guidelines, the factors causing the non-compliance and the Contractor's action to resolve the issue(s). Refer to Appendix: Financial Viability Standards – Performance Guidelines

13) Changes in Financial Statement Line Items:

Describe material changes in balance sheet and revenue and expense line items. Provide an explanation of the contents of the line item and the reason for the material fluctuation.

14) Prior Period Adjustments:

Disclose and describe any adjustments made to previously submitted financial statements including those adjustments that affect the current quarter's financial statements.

**3.09 Summary of Contractor Contract Rates for Services**

List the Contractor's unit cost information. (See Appendix 6.6)

**3.10 Calculation of Per Member Per Month (PMPM)**

Per Member Per Month (PMPM) is reported on Report #2, Statement of Activities/Income Statement. PMPM is calculated by dividing the amount stated on the Statement of Activities/ by the Member Months (unduplicated) as reported on Report #7, Utilization. The end date used for the Member Months must be the same as the time period for which the financial statements are reported. For example, Member Months reported on the Utilization Report submitted with financial statements for the quarter ended December 31, 2008 would be for the time period October 1, 2008 through December 31, 2008.

Member Months (Unduplicated) Prospective Only is calculated by adding together the total of **Institutional Member Months**, the total of **Home and Community Based Services Member Months**, the Member Months as reported on the **Acute Care** line, the **Ventilator** line and **Other (Specify)** line. Prior Period Coverage is **NOT** included in the total of Member Months.

**PMPM for prospective amounts should be calculated using prospective only member months. PMPM for prior period coverage amounts should be calculated using prior period coverage member months.**

## **4.0 SUPPLEMENTAL REPORTS**

### **4.01 REPORT #3 – Investments and Statement of Financial Position - Net Assets - or - Balance Sheet “Other Account” Details (Appendix 6.1.3)**

List all investments, short-term and long-term, that are included in the Statement of Financial Position, Net Assets or Balance Sheet - A/C's 110, 145, and 155. The investment description should include the name of the issuer of the security or instrument. The investments should be separated by type, i.e. bond, stock, etc. Investments not included in any of the specified types listed in the report should be included in "other". The investment category is based on the classification of the investment under FASB Standards (i.e., available-for-sale, held-to-maturity, or trading).

Restricted investments or those pledged to meet the AHCCCS performance bond requirement should be included herein. Such investments should not be included in A/C 145 of the Statement of Financial Position, Net Assets or Balance Sheet. All investments, with the exception of U.S. Government Securities, must be approved in advance by AHCCCS. Approval of the Contractor's Investment Policy may satisfy this requirement.

#### **Carrying Value**

Carrying value of an investment is the amount at which it is reflected in the financial statements of an enterprise. Refer to FASB Standards.

#### **Liquid Investment**

A liquid investment which matures in less than 90 days from the original date of purchase is a cash equivalent and should be included on Report #1 under A/C 105

#### **Short-term vs. Long term**

A short-term investment is an investment that is readily marketable and the intent of management is to convert the asset into cash within one year. All investments not meeting the definition of short-term or cash equivalent should be reported as long-term investments. Enter the amortized cost and market value of each investment in the appropriate column on Report #3.

Include all activity for accounts 135, 140, 165 and 190 in the appropriate categories provided. The ending balances for current assets should agree to Account balances of the Statement of Financial Position, Net Assets or Balance Sheet for these account numbers.

Include all other liabilities (current and non-current) accounts 225, 240, 255, 230 and 245 in the appropriate categories provided. List all loans, notes payable and capital lease obligations by lender as well as by current and long-term portions of outstanding principle at the end of the quarter (exclude debt to affiliates, this is to be reported on the Due (to) from Affiliates line).

### **4.02 Report #4: Statement of Activities or Income Statement “Other Account” Details (Appendix 6.1.4)**

Include all other Revenue and Expense accounts 335, 380, 412, 444, 472, 479 and 496 in the appropriate categories provided.



#### **4.03 Report #5: Medical Claims Payable RBUCs (Appendix 6.1.5)**

Received but unpaid claims (RBUCs) are to be reported by the appropriate expense and aging (i.e., 1-30 days, 31-60 days, 61-90 days and over 90 days) categories. A claim becomes an RBUC the day it is received by the Contractor, not the day it is processed/adjudicated. This report should tie to the balance of Account 222 on the Statement of Financial Position, Net Assets or Balance Sheet (Report #1, Appendix 6.1.1).

#### **4.04 Report #6A-6D: Lag Reports for Prospective Period *ONLY* IBNR (Appendix 6.1.6)**

The instructions below apply the Institutional Lag, HCBS Lag, Acute Only Lag and Other Medical Compensation Lag reports. These schedules are for prospective period information.

The schedules are arranged with dates of service horizontally and quarter of payment vertically. Therefore, payments made during the current quarter for services rendered during the current quarter are reported on row 1, column 2, while payments made during the current quarter for services rendered in prior quarters are reported on row 1, columns 3 through 8. Do not include risk pool distributions or sub-capitation as payments in this schedule. Amounts in the 6th prior column or row include the amounts for the 6th prior period, and any earlier periods.

The schedules allow for the inclusion of an adjustment (e.g., for provider refunds) amount to the lag schedule. A general explanation of any adjustments should be included in the footnotes as well as additional detail if any adjustment is greater than 5% of total medical claims payable.

#### **4.05 Report #7: Utilization (Appendix 6.1.7)**

This report is used to capture enrollment, member months, and utilization statistics by county, using Medicare/Non-Medicare categories on a quarterly basis. The first page will be used to total all counties enrollment, member months, and utilization statistics. Additional pages are made to capture enrollment, member months, and utilization statistics for each county.

##### **Enrollment**

Include: The number of members enrolled with the Contractor on the last day of the month (or quarter) for which the report is being prepared.

##### **Member Months**

Include: The total member months for each category (Medicare and Non-Medicare) for the current period and year-to-date. A member month is equivalent to one member for whom the Contractor has recognized capitation-based revenue for the entire month. When revenue is recognized for part of a month for a given individual, a partial, pro-rated, member month should be counted. A partial member month is pro-rated based on the actual number of days in a particular month. Member months should be prospective only.

The end date used for the Member Months must be the same as the time period for which the financial statements are reported. For example, Member Months reported on the Utilization Report submitted with financial statements for the quarter ended December 31, 2008 would be for the time period October 1, 2008 through December 31, 2008.

Member Months (Unduplicated) Prospective Only is calculated by adding together the total of **Institutional Member Months**, the total of **Home and Community**

**Based Services Member Months**, the Member Months as reported on the **Acute Care** line, the **Ventilator** line and **Other (Specify)** line. Prior Period Coverage is **NOT** included in the total of Member Months.

#### Admissions

Include: A member admitted to an acute care inpatient facility, a member admitted to an acute care facility and subsequently transferred to another acute care facility, a member admitted as a result of their emergency room visit and a member hospitalized at the time of enrollment with the Contractor (this would include behavioral health inpatient admissions).

Exclude: Admission to non-acute care facilities, whether freestanding or within an acute care facility. Non-acute care facilities include: Rehabilitation, skilled nursing, behavioral health or clinical dependence facilities.

#### Patient Days

Include: The number of patient days of care provided during the month. Count each day during the month related to the hospital stay regardless of the payer; this would include all of the patient days for patients admitted from the emergency room. For new members previously hospitalized on the day of enrollment, count only the days beginning with the date of enrollment.

Exclude: Short stay/observation visits regardless of the length of stay and patient days in non-acute care facilities.

#### Discharges

Include: Discharges and deaths that occurred during the month. Count as a discharge a transfer to a non-acute care setting and the disenrollment of a hospitalized member during the month, even if the person continues to be hospitalized.

Exclude: Transfers between acute care facilities and discharges from non-acute care facilities.

#### Discharge Days

Include: The days associated with each discharge, including the day of admission. Discharge days can overlap a month if the admission occurred in the previous month but the discharge occurred during the current month.

Exclude: The day of discharge.

#### Average Length of Stay

Calculated by dividing reported patients days by admissions.

#### Emergency Room Visits

Include: All visits to the emergency room regardless of the level of care received.

Exclude: Emergency room visits, if they result in a subsequent admission. Visits to emergency rooms that are determined, after subsequent review, not to be emergencies. Exclude all visits to other than hospital emergency rooms regardless of the level of care received.

#### **4.06 Federally Qualified Health Center (FQHC)/Rural Health Clinics (RHC) Reasonable Cost Reimbursement Report (Appendix 6.1.8)**

List quarterly member month information by category (i.e., Categorical by SOBRA/AFDC and SSI, Categorical Linked Expansion, Federal Non-Categorical Linked Expansion, and Federal Non-Categorical Linked Conversion) for each FQHC/RHC. Any member assigned to the FQHC/RHC on the 1st day of the month should be counted as one member month. Partial months will not be counted. Member month information is reported on 6.1.8 FQHC Mbr Months

Report total fee-for-service and capitation amounts paid during the reporting period, by FQHC/RHC. Total fee-for-service and capitation amounts are reported on 6.1.8A FQHC Payments.

Contractors are responsible for maintaining a detailed listing, by month, of members submitted. Listing should include member name, AHCCCS ID#, primary care physician, FQHC/RHC assigned, rate code and amounts paid. This list may be subject to AHCCCS review.

#### **4.07 HIV/AIDS Supplemental Payment Report (Appendix 6.1.9) (N/A)**

#### **4.08 Spouse as Paid Caregiver (Appendix 6.7)**

Program Contractors are required to provide quarterly financial statements that include separate authorized hours and expenditure information for Spouse as Paid Caregiver [Contract Section D, Paragraph 10].

#### **4.09 Consolidated or Parent Company Financial Statements (if applicable)**

Contractors that are a wholly owned subsidiary of another organization must submit quarterly unaudited financial information of the parent or sponsoring organization (Statement of Financial Position, Net Assets or Balance Sheet and Statement of Activities or Income Statement only).

#### **4.10 Annual Reconciliation**

Draft annual audited financial statements should be complete with all required attachments and schedules and be as close to final submission as possible. There should only be non-material changes between the draft submission and the final Audited Financial statements submission. Any and all changes between the quarterly financial statement and the draft and final audit must be reported in detail in this footnote.

#### **4.11 Parent Company Annual Audit Report (if applicable)**

Contractors that are wholly owned subsidiaries must submit audited financial statements of the parent or sponsoring organization no later than 120 days after the parent company's fiscal year end. An opinion letter is not required with the submission of consolidated or parent company financial statements.

#### **4.12 Quarterly Premium Tax Report**

Appendix 6.3 has the internet website address for the Quarterly Premium Tax report and policy.

## **5.0 ACCOUNTING AND REPORTING ISSUES**

### **5.01 Medical Claims Liability (Including Claim Estimations RBUCs and IBNRs)**

There are three primary components of claims expense:

- Paid claims,
- Received but unpaid claims (RBUCs). A claim is considered an RBUC immediately upon receipt by the Contractor and should be tracked as such. The processing status of an RBUC is either pending, in process or payable, and
- Incurred but not reported claims (IBNRs).

The first two components of claims expense are readily identifiable as part of the basic accounting systems utilized by the Contractors. Since these components, along with a well-established prior authorization and referral system, form the basis for estimation of IBNRs, it is important that Contractors have adequate claims accrual and payment systems. These systems must be capable of reporting claims on an incurred or date of service basis, have the capacity to highlight large outlier cases, possess sufficient internal controls to prevent and detect payment errors, and conform to regular payment patterns. Once IBNR estimates have been established, it is imperative that the Contractors continually monitor them with reference to reported and paid claims.

Claims expense cannot be properly evaluated without adequate consideration of current trends and conditions. The following summarizes claims environment factors that should be considered:

- Changes in policy, practice, or coverage
- Fluctuations in enrollment by rate code category
- Expected inflationary trends
- Trends in claims lag time
- Trends in the length of hospital inpatient stay by rate code category
- Changes in rate code case mix
- Changes in contractual agreements

#### Elements of an IBNR System

IBNRs are difficult to estimate because the quantity of service and exact service cost are not always known until claims are actually received. Since medical claims are the major expenses incurred by AHCCCS Contractors, it is extremely important to accurately identify costs for outstanding unbilled services. To accomplish this, a reliable claims system and a logical IBNR methodology are required.

Selection of the most appropriate system for estimating IBNR claims expense requires judgment based on a Contractor's own circumstances, characteristics, and the availability and reliability of various data sources. Using a primary estimation methodology, along with supplementary analysis, usually produces the most accurate IBNR estimates. Other common elements needed for a successful IBNR system are:

1. An IBNR system must function as part of the overall financial management and claims system. These systems combine to collect, analyze, and share claims data. They require effective referral, prior authorization, utilization review and discharge planning functions. Also, the Contractor must have a full accrual accounting system. Full accrual accounting systems help properly identify and record the expense, together with the related liability, for all unpaid and unbilled medical services provided to Contractor members.
2. An effective IBNR system requires the development of reliable lag tables that identify the length of time between provision of service, receipt of claims, and processing and payment of claims by major

provider type (hospital, medical compensation and other medical). Reliable claims/cash disbursement systems generally produce most of the necessary data. Lag tables, and the projections developed from them, are most useful when there is a sufficient, accurate claim history, which shows stable claims lag patterns. Otherwise, the tables will need modification, on a proforma basis, to reflect corrections for known errors or skewed payment patterns. The data included in the lag schedules should include all information received to date in order to take advantage of all known amounts (i.e., RBUCs and paid claims).

3. Accurate, complete, and timely claims data should be monitored, collected, compiled and evaluated as early as possible. Whenever practical, claims data collection and analysis should begin before the service is provided (i.e., prior authorization records). This prospective claims data, together with claims data collected as the services are provided, should be used to identify claims liabilities.
4. Claims data should also be segregated to permit analysis by major rate code, county, major provider, and category of service.
5. Subcontractor agreements should clearly state each party's responsibility for claims/encounter submission, prior notification, authorization, and reimbursement rates. These agreements should be in writing, clearly understood and followed consistently by each party.
6. The individual IBNR amounts, once established, should be monitored for adequacy and adjusted as needed. If IBNR estimates are subsequently found to be significantly inaccurate, analysis should be performed to determine the reasons for the inaccuracy. Such an analysis should be used to refine a Contractor's IBNR methodology if applicable.

There are several different methods that may be used to determine the IBNR amount. Examples include, but are not limited to, Case Basis, Average Cost and Lag Tables. The Contractor should employ the one that best meets its needs and accurately estimates its IBNR. The IBNR methodology used by the Contractor must be evaluated by the Contractor's Independent Public Accountant or actuary for reasonableness. A description of the process should also be included in the footnotes to the financial statements under the Summary of Significant Accounting Policies.

## **5.02 Reinsurance**

Reinsurance provides partial reimbursement to the Contractors when extraordinary costs associated with a member are incurred during a contract year. Specific deductible amounts and reimbursement rates are in the current Request for Proposal, including any amendments.

AHCCCS rules require Contractors to pay the medical expenses relating to reinsurance prior to reimbursement from AHCCCS. This creates a receivable from AHCCCS to the Contractors. The receivable consists of two components; known claims and unknown claims. The known claims have been received by the Contractor. The unknown portion of the receivable relates to expenses for which the Contractor has not received claims, and should be tied into the Contractor's IBNR estimates.

## **5.03 Related Parties/Affiliates**

AHCCCS monitors the existence of related party transactions in order to determine if any significant conflicts of interest exist in the Contractor's ability to meet AHCCCS objectives. A related party or affiliate may be defined as anyone who has the power to control or significantly influence the Contractor or be controlled or significantly influenced by the Contractor. Accordingly, subsidiaries, parent companies, sister companies, and entities accounted for by the equity method are considered related parties, as are principal owners, Board of Director members, management, and their immediate families, and other entities

controlled or managed by any of the previously listed entities or persons, including management companies. Related party transactions include all transactions between the Contractor and such related parties, regardless of whether they are conducted in an arm's length manner or are not reflected in the accounting records (e.g., the provision of services without charge or guarantees of outstanding debt).

Transactions with related parties may or may not be in the normal course of business. In the normal course of business, there may be numerous routine and recurring transactions with parties who meet the definition of a related party. Although each party may be appropriately pursuing its respective best interest, transactions between them must be disclosed and reviewed for reasonableness.

#### **5.04 Financial Viability Standards and Performance Guidelines**

AHCCCS has established financial viability standards and performance guidelines. On a quarterly basis, AHCCCS reviews the following ratios with the purpose of monitoring the financial health of the Contractor. The two financial viability standards, Current Ratio and Equity per Member, are the standards that best represent the financial solvency of the Contractor. Therefore, the Contractor must comply with these two financial viability standards.

##### **Current Ratio**

Standard: At least 1.00

Current assets divided by current liabilities.

Included: Long-term investments that can be converted to cash within 24 hours without significant penalty. Significant penalty would be greater than 20% of the long-term investment total.

##### **Equity Per Member**

Standard: At least \$2,000.

Unrestricted equity less performance bond reported on balance sheet divided by number of members at the end of the reporting period.

##### **Other**

AHCCCS will also monitor the Medical Expense Ratio, the Administrative Cost Percentage, and the RBUCs Days Outstanding. These guidelines are analyzed as part of AHCCCS's due diligence in financial statement monitoring.

Medical Expense Ratio is calculated by dividing Total Medical Expense, as reported on the financial statement by Total AHCCCS Payments less Premium Tax, as reported on the financial statements.

Administrative Cost Percentage is calculated by dividing Total Administration Expense, as reported on the financial statements, by Total AHCCCS Payments less Premium Tax, as reported on the financial statements.

RBUCs Days Outstanding is calculated by dividing the RBUCs by Average Daily Medical Expense. Average Daily Medical Expense is calculated by dividing the sum of medical and case management expenses, as reported on the financial statements, by number of days in the period.